H2 2025

CBRE Investment Management

Global

# Real Estate House View

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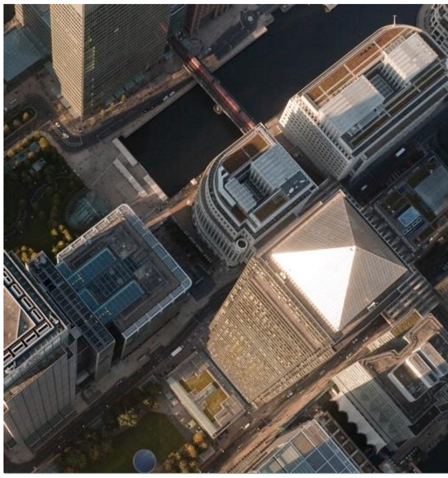
# Introduction and key calls

Our proprietary real estate forecasts remain compelling, with a projected five-year unlevered institutional quality total return in the mid-7% range in Europe, mid-6% range in Asia Pacific and low-6% range in the U.S. These returns are still boosted by a post-repricing upswing in income returns, with some sectors also offering cap rate compression and above-inflation rent growth.

In the H1 2025 edition of our House View, we made a marked regional and sector rotation to our allocations on the back of the revised forecasts. In this edition of our House View, we have further amplified those shifts and added a third. While we still believe that picking the right sectors and markets can add substantial outperformance to an optimized portfolio, we recognize a rotation in the performance drivers of our portfolios, with a greater weight given to stock selection. These three rotations drive our key calls:



KEY CALL 1

### The regional rotation is amplified—Europe ex-U.K. offers both high returns and deep value

We further downgraded our allocation to the U.S. given its lower absolute return forecasts, and we nudged down our allocations to Japan and the U.K. given lower conviction in bond yield, and thus cap rate forecasts. Europe ex-U.K. benefited from the reduced allocations and now is at the very top of its strategic band, for the first time since the House View process began in 2012. This reflects the region offering both the highest absolute returns as well as deep value.

KEY CALL 2

### The sector rotation continues, with logistics allocations lowered in favor of residential alternatives (alts), retail and office

We continued our sector rotation, further downgrading our logistics allocation in favor of residential alternatives, retail and modern office. Our residential alts allocation is our largest at six times the benchmark and our retail tactical allocation is near the top of its strategic band also. While we are less positive on logistics, it is still our second largest sector allocation, at 30% of the model portfolio.

KEY CALL 3

### We are highlighting a third rotation—performance driver—from segment to stock

We believe that allocating to the real estate segments (market, sector combinations) that provide the best relative and absolute value will remain a key driver of portfolio outperformance. However, given the widening performance gap between "the best and the rest" across all sectors, but retail, office and logistics in particular, we are also highly focused on stock selection. We expect to see stock selection become a greater contributor to overall performance over this cycle.

# Real estate forecasts

## Largest downgrades to U.S. life science and legacy logistics

At CBRE Investment Management, we create proprietary real estate forecasts for over 530 sector-market-quality combinations. When we roll them up, we see a clear regional gap in projected performance. **Figure 1** shows that we are forecasting unlevered institutional local currency returns in the mid-7% range in Europe. On a like-for-like basis, this represents a 20 basis point upgrade in our Europe ex-U.K. forecasts and a 10 basis point downgrade in our U.K. forecasts.

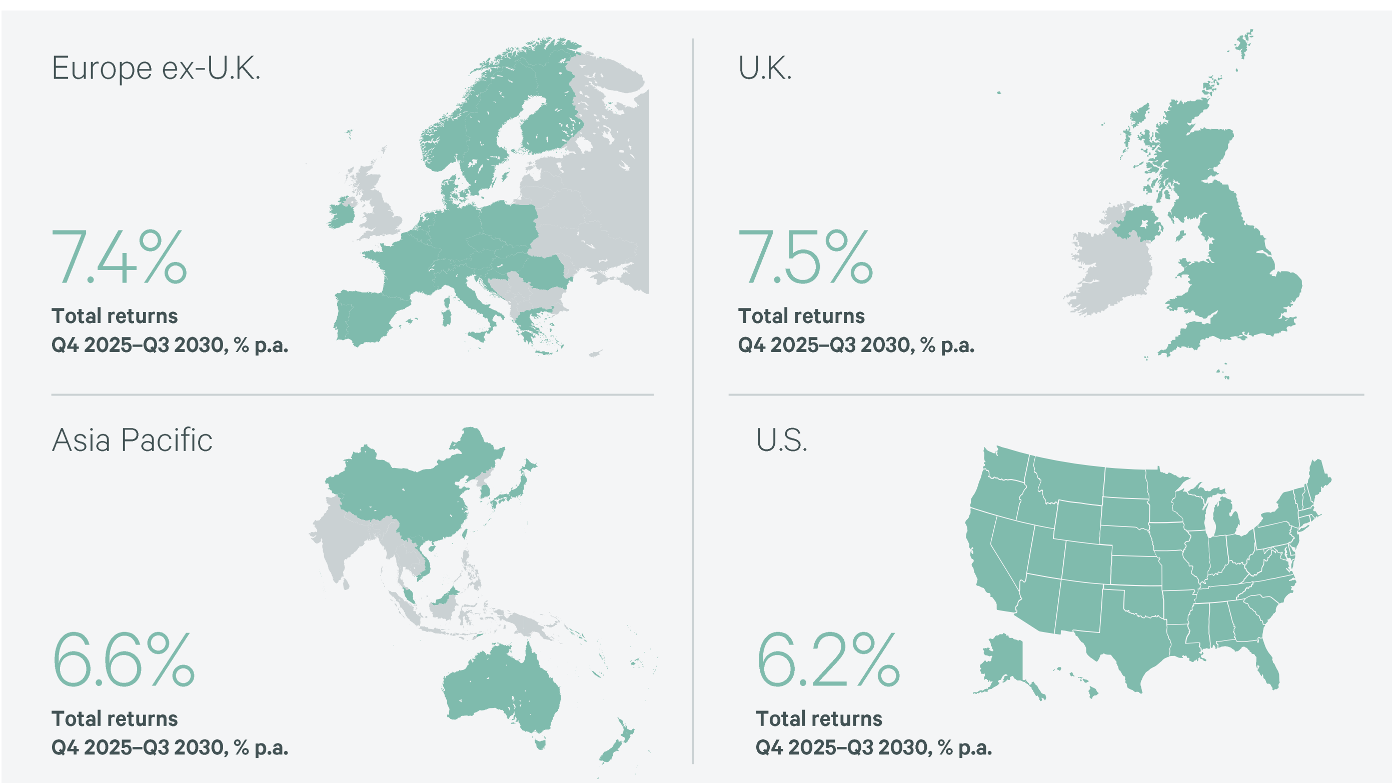
**530+**
Sector-market-quality combinations

**▲ 20**
Basis point upgrade in our Europe ex-U.K. forecasts

**▼ 10**
Basis point downgrade in our U.K. forecasts

We downgraded Asia Pacific by 40 basis points with a forecast return of 6.6%, largely driven by a higher bond yield forecast, and thus more negative cap rate forecast in Japan. Finally, we forecast returns of 6.2% in the U.S., down 20 basis points since our H1 2025 House View.

Figure 1: **Total returns, Q4 2025-Q3 2030, % p.a.**

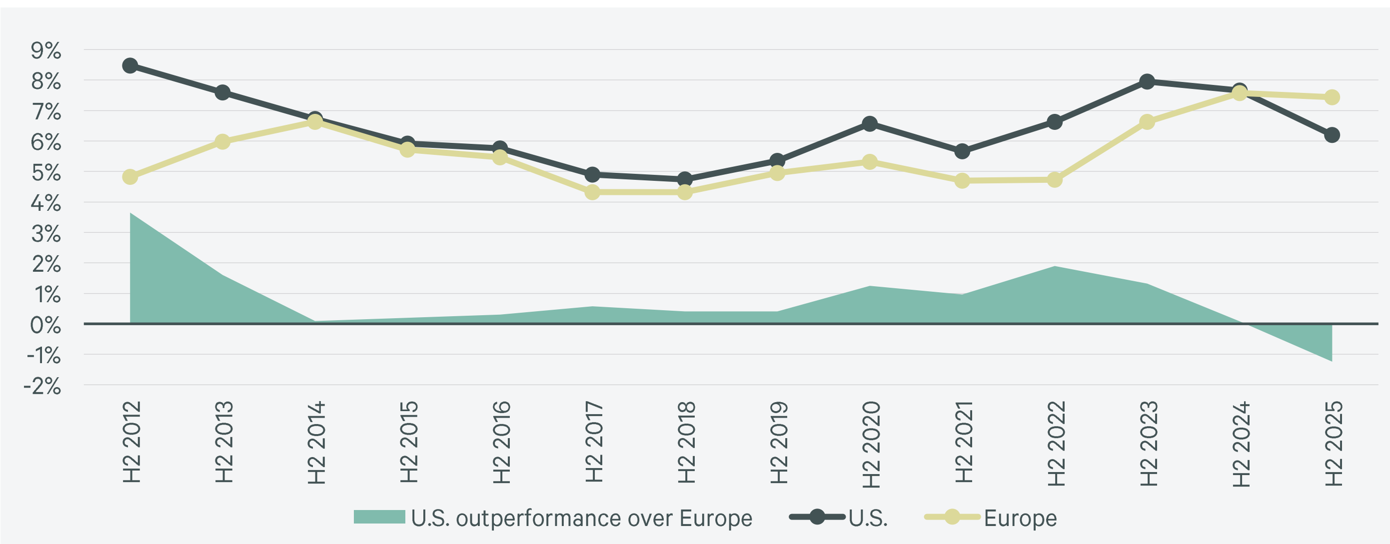



Source: CBRE Investment Management, forecasts as of H2 2025. Returns are unlevered, institutional quality and in local currency. For illustrative purposes only. Based on CBRE Investment Management's subjective views and subject to change. There can be no assurance any targets or business initiatives will occur as expected. Forecasts are inherently uncertain and subject to change.

This projected European outperformance is quite unusual. Traditionally, we have taken the view that Europe offers deep value while the U.S. offers growth. **Figure 2** shows that in the thirteen-year history of our House View process, we have never forecast higher European than U.S. returns until this year. However, as **Figure 3** shows, we have already seen the performance gap open up in the MSCI performance data. In the past, we saw periods of European outperformance during the Global Financial Crisis (GFC) and for a brief period leading up to the pandemic. But the GFC period, in particular, reflected valuation stickiness and lag rather than a real differential in performance.

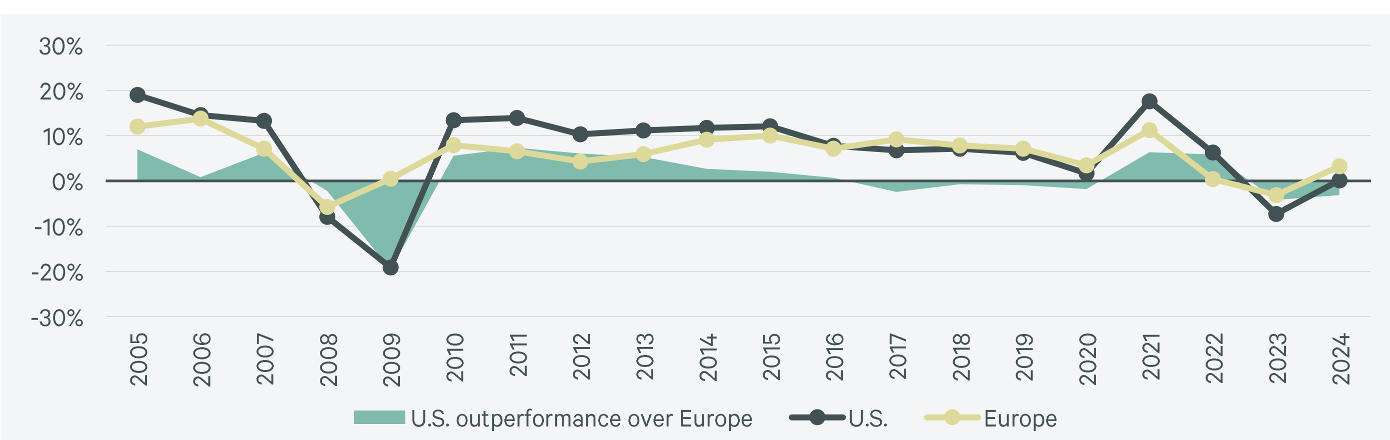
Similar to our previous House View, the lower forecast bond yields in Europe ex-U.K. and Asia Pacific offer higher income premia than the U.K. and U.S. This enhances the attractiveness of leverage in these regions. In the U.S., the leverage impact is minimal.

Figure 2: **Rolling five-year returns forecast, forward looking, by vintage, % p.a.**




Note: Forecasts are not always like-for-like due to the inclusion/exclusion of new markets over time and updating or improving of data sources. Source: CBRE Investment Management forecasts. Forecasts are uncertain and subject to change. There is no guarantee of future performance.

Figure 3: **Annual historical returns, backwards looking, by year, % p.a.**



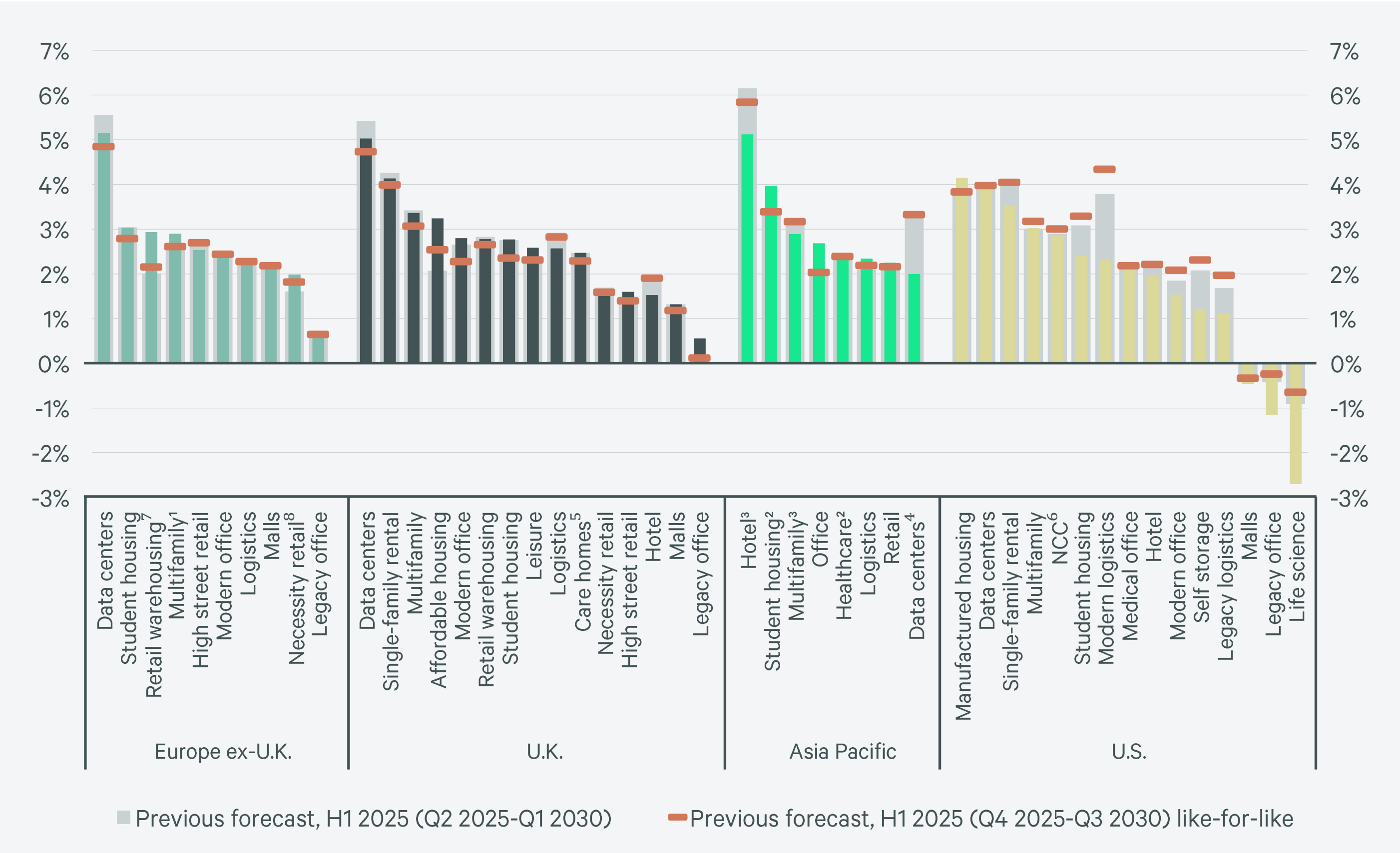

Sources: MSCI Europe Annual Property Index (Unfrozen; Weighting: Market Size); MSCI U.S. Annual Property Index (Unfrozen). For illustrative purposes only. Current market conditions differ from prior market conditions; including during prior periods of stress and dislocation. There can be no assurance any prior trends will continue.

# Drivers of return performance

## A more nuanced picture as selective retail and office offer value

Analyzing the drivers behind our total return forecasts reveals key changes across regions and sectors as shown in **Figure 4**. Rent growth forecasts show little change in Europe since our last forecast round. However, significant downgrades occurred in Asia Pacific hotel and data center rent growth, and for U.S. logistics, legacy office and life science. The U.S. downgrades reflect leasing weakness, particularly in logistics and life science markets that are trying to absorb the oversupply developed during the pandemic. A substantial deterioration in funding for life science and tariff-related uncertainties at U.S. coastal ports also contributed to the downgrades.

Figure 4: **Rent growth, Q4 2025–Q3 2030, % p.a.**




European and Asia Pacific rent growth figures reflect prime properties, apart from legacy categories. 1. Switzerland residential is not included in aggregates 2. Australia only 3. Japan and Australia 4. Japan only 5. Previously referred to as secondary healthcare 6. Neighborhood and community centers 7. Germany only 8. Netherlands only

Student housing in Europe ex-U.K., U.K. and Asia Pacific refers exclusively to purpose-built student accommodation.

Source: CBRE Investment Management, forecasts as of H2 2025. For illustrative purposes only. Based on CBRE Investment Management's subjective views and subject to change. There can be no assurance any targets or business initiatives will occur as expected. Forecasts are inherently uncertain and subject to change.

European forecasts remain largely unchanged, except for a slight projected inward movement in European ex-U.K. retail warehouse yields and U.K. office (**Figure 5**). In Asia Pacific, yield shifts are small but directionally significant. Our revised forecast of higher bond yields in Japan led to a shift from our previous forecast of yield compression to our current forecast of modest expansion in Japanese (and thus Asia Pacific) multifamily and data centers.

Yield forecast revisions are more nuanced based on how sentiment and funding are impacting individual segments.

Figure 5: **Yield shift, Q3 2025–Q3 2030, % cumulative**

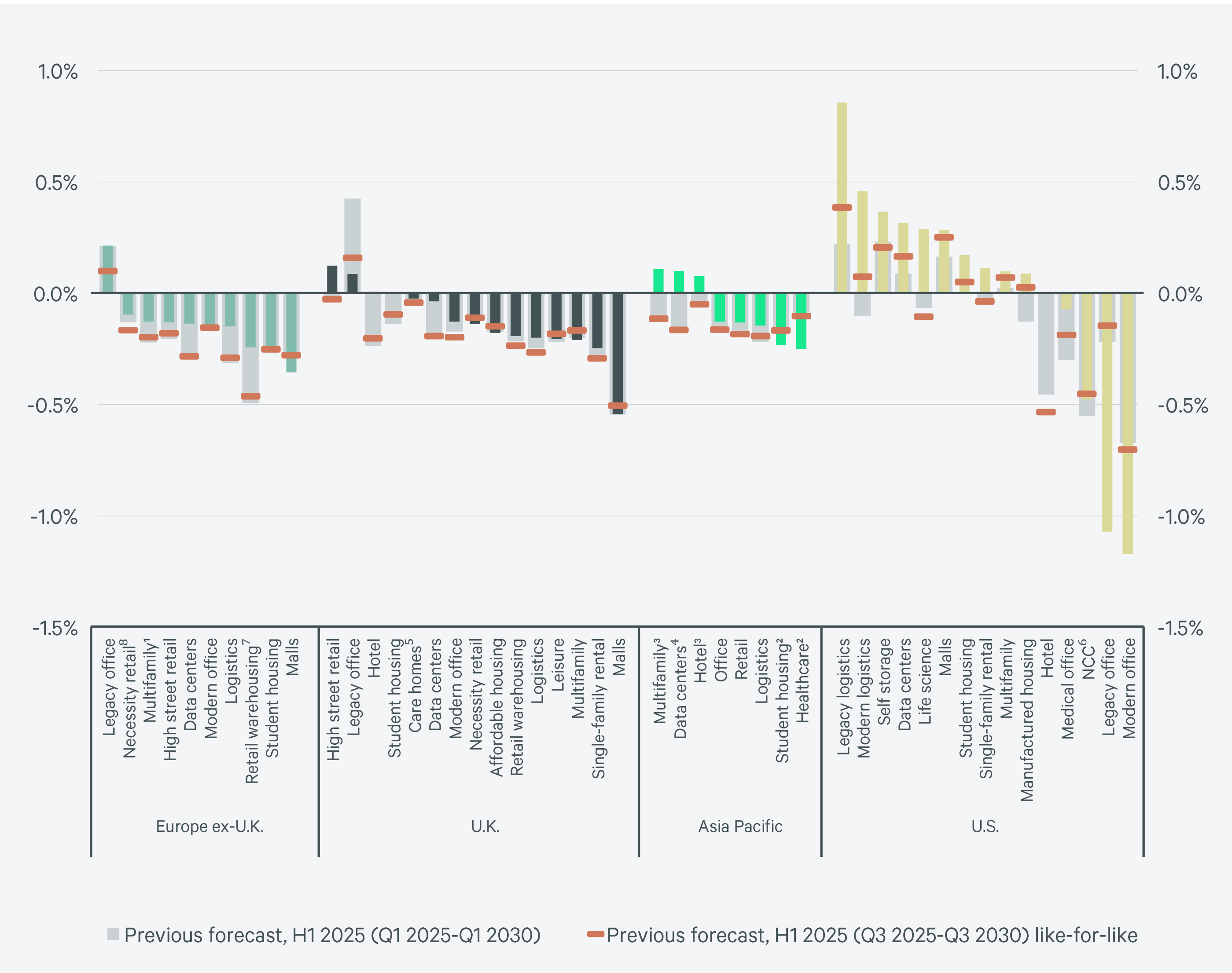



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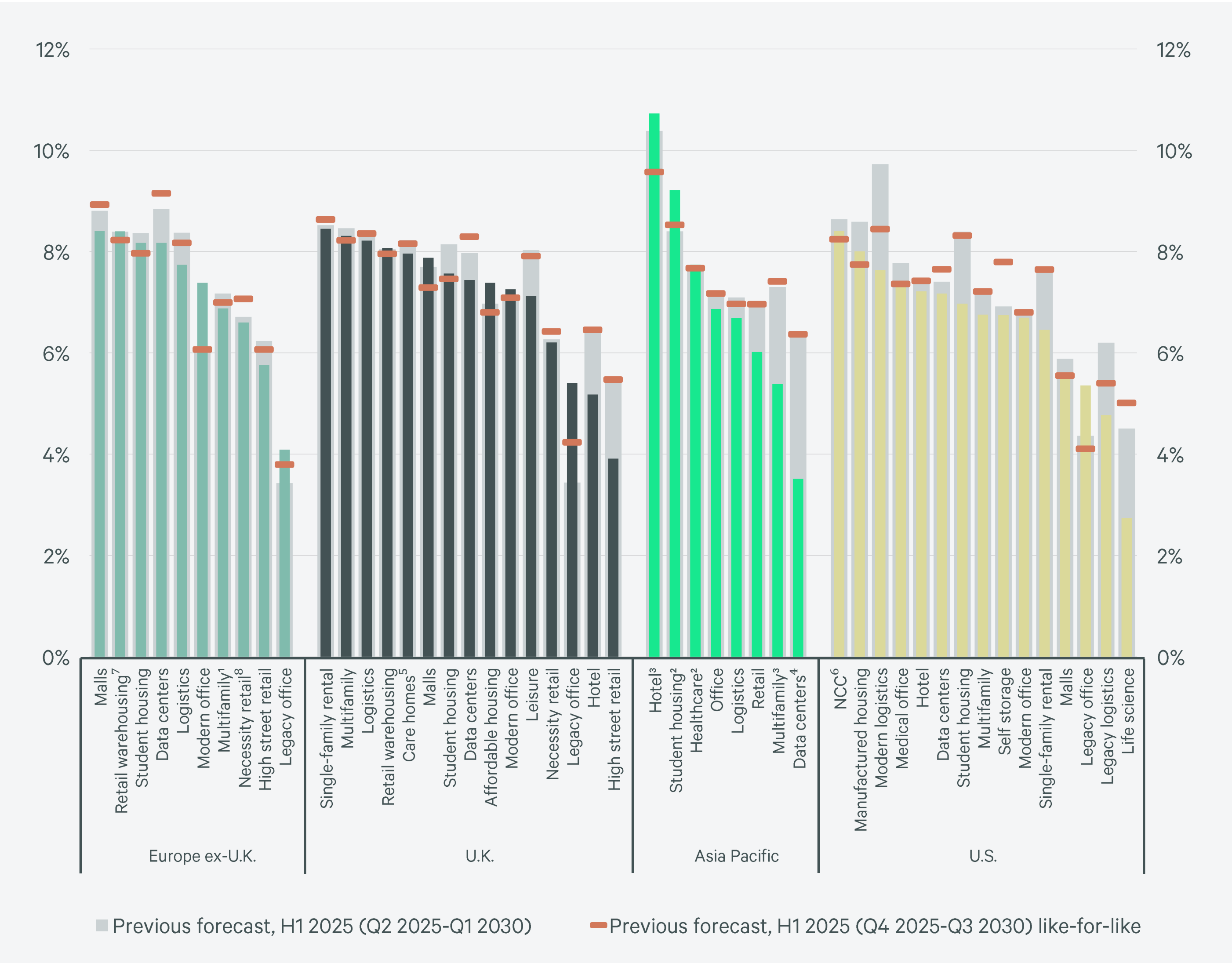
**Figure 6** incorporates the above showing our current total return forecasts and revisions by segment. The changes in Europe are minimal with the exception of downgrades to U.K. legacy office, hotel and high street retail. A large performance gap exists between our best performing segments, with projected returns of approximately 8%, versus our weakest segments at just 4%. In Asia Pacific, our forecasts are also broadly unchanged except for an upgrade to hotels and a substantial downgrade to retail, multifamily and data centers, largely driven by Japan. And finally, our U.S. forecasts have been downgraded almost across the board, with particularly large markdowns in our life science and single-family rent forecasts. The exception is legacy office, which has been upgraded but still looks weak in absolute terms.

Figure 6: **Total return, Q4 2025–Q3 2030, % p.a.**

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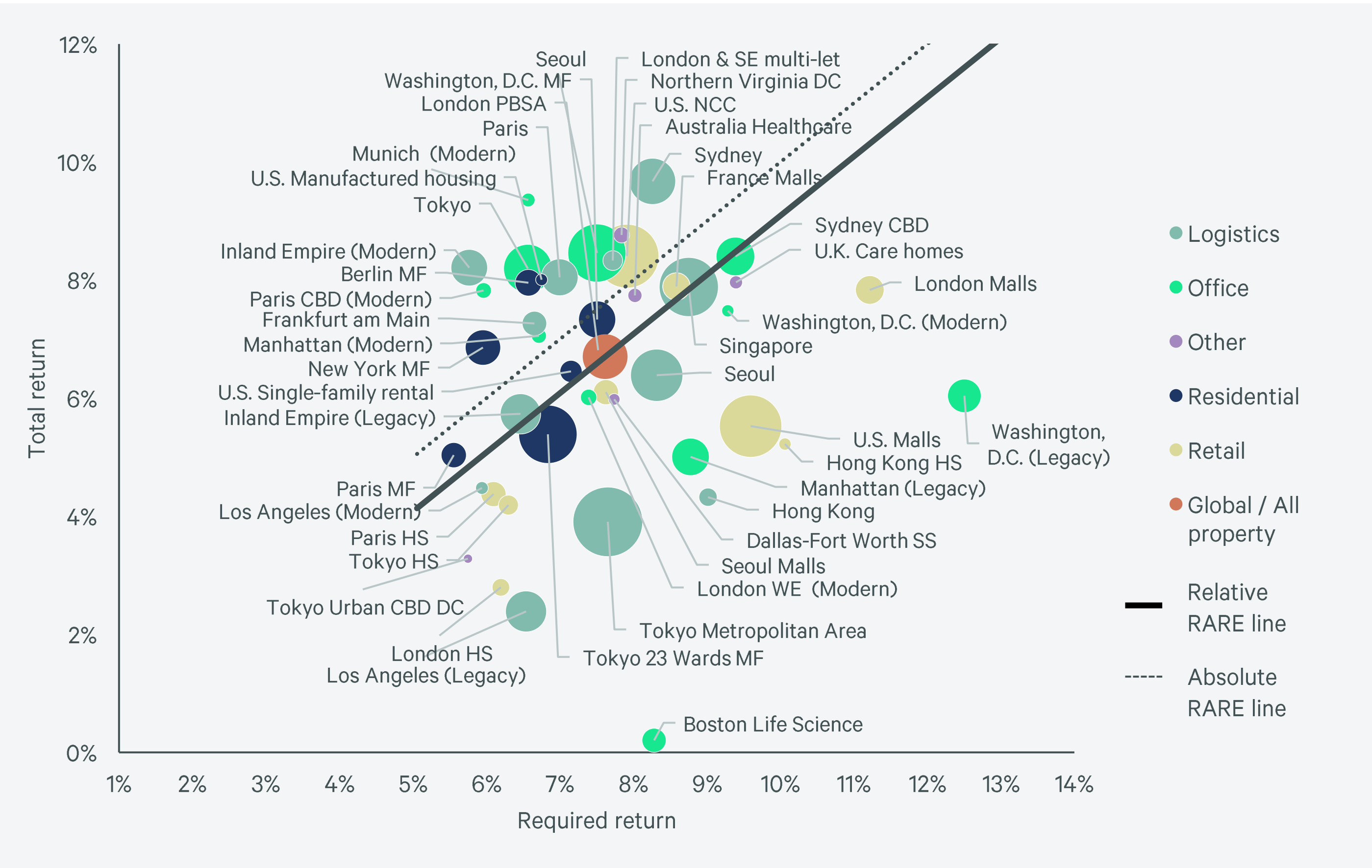
# Risk-adjusted returns

## A wider opportunity set across sectors

**Figure 7** shows our assessment of relative and absolute value using our RARE methodology. We plot our forecast returns on the vertical axis and our estimate of the required return on the horizontal axis. This estimate comprises our forecast for the local risk-free rate as well as estimates of local liquidity, volatility and forecast NOI growth. Markets above the relative RARE line are expected to generate better returns versus their required return than the average market. Markets above the absolute RARE line are expected to generate returns higher than their required return.

Figure 7: **Required return and total return, for all sectors, Q4 2025–Q3 2030, % p.a.**




PBSA = Purpose-built student accommodation; MF = Multifamily residential; SFR = Single-family rental; HS = High street retail; NCC = Neighborhood and community centers; Modern = Modern office/logistics; Legacy = Legacy office/logistics; U.S. cities with residential reflect apartments. All Japanese residential markets represent JREIT quality assets.
Bubble size reflects the size of the market.
Total return figures reflect unlevered property returns of a passive fully invested portfolio before fees and taxes. The return is the five-year average per annum for the period Q4 2025–Q3 2030.
Relative RARE line: Markets above the line are expected to generate better returns versus their required return than the average market.
Absolute RARE line: Markets above the line are expected to generate returns higher than their required return.
Source: CBRE Investment Management, forecasts as of H2 2025. For illustrative purposes only. Based on CBRE Investment Management's subjective views and subject to change. There can be no assurance any targets or business initiatives will occur as expected. Forecasts are inherently uncertain and subject to change.

Given our higher-for-longer bond yield forecast, fewer markets meet the absolute return hurdle than the relative return hurdle. The markets above the absolute RARE line include some major logistics markets (Modern Inland Empire, Sydney) and some major residential markets (New York and Los Angeles multifamily), as well as Tokyo hotels and Northern Virginia data centers. Surprisingly, Los Angeles neighborhood and community centers meet the demanding absolute hurdle, as well as some major office markets (Paris CBD, Munich, Seoul and Tokyo). The old mantra of “beds and sheds” is over. There is absolute value to be found across the mainstream and alternative sectors.

We can see the bifurcation of performance across sectors. We also need to add in other factors. Modern logistics gives us some of our most mispriced good value (Inland Empire) but there are also major logistics markets that look poor value, notably in the Tokyo metropolitan area. This does not mean that we would not invest in Tokyo but are being more granular in our approach to identifying sub- and micro-markets where the supply-demand imbalance is more favorable. This relates to our third key call regarding stock selection. We believe that we can continue to drive better performance through stock selection, controlling from development to operation and executing our business plans with discipline.

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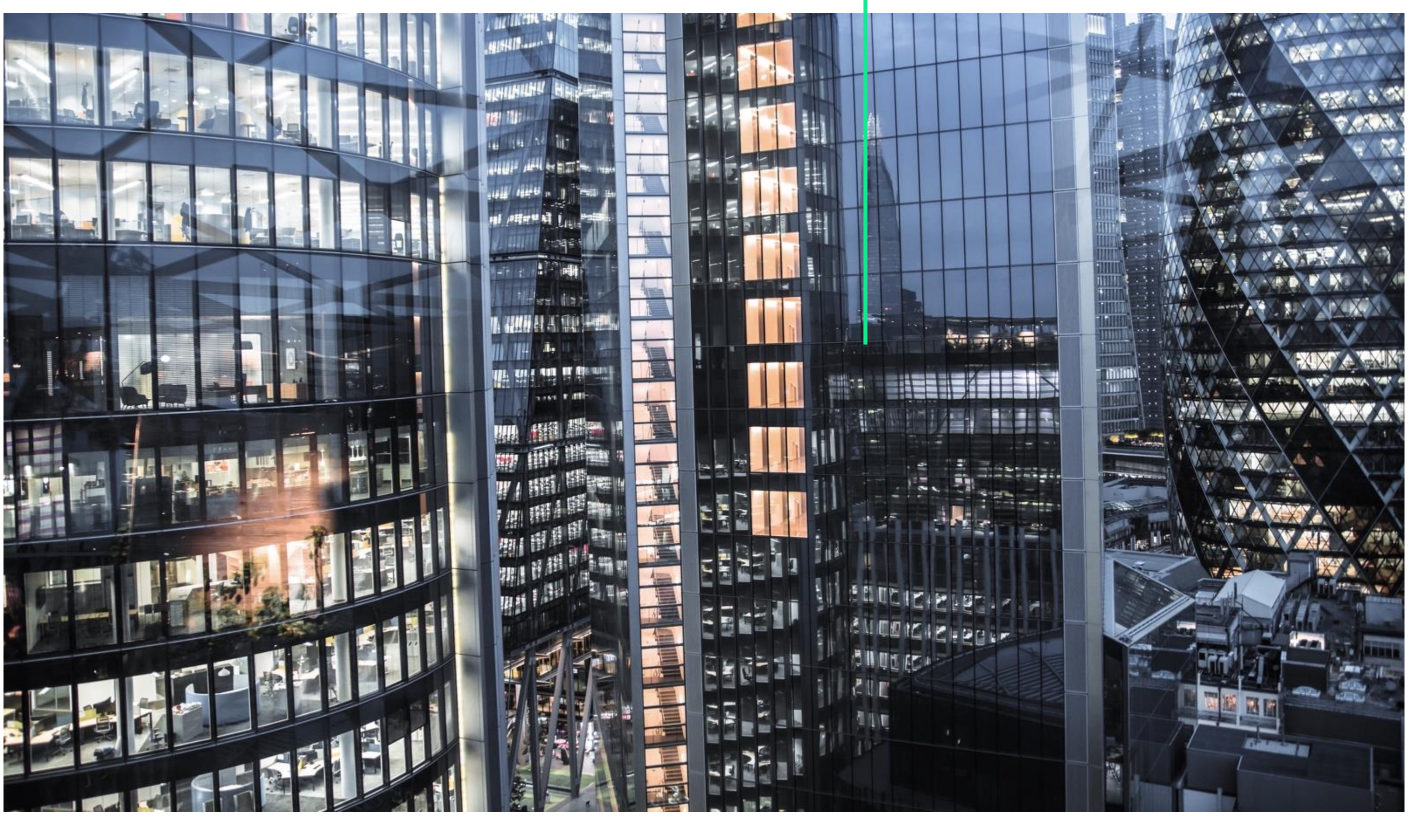
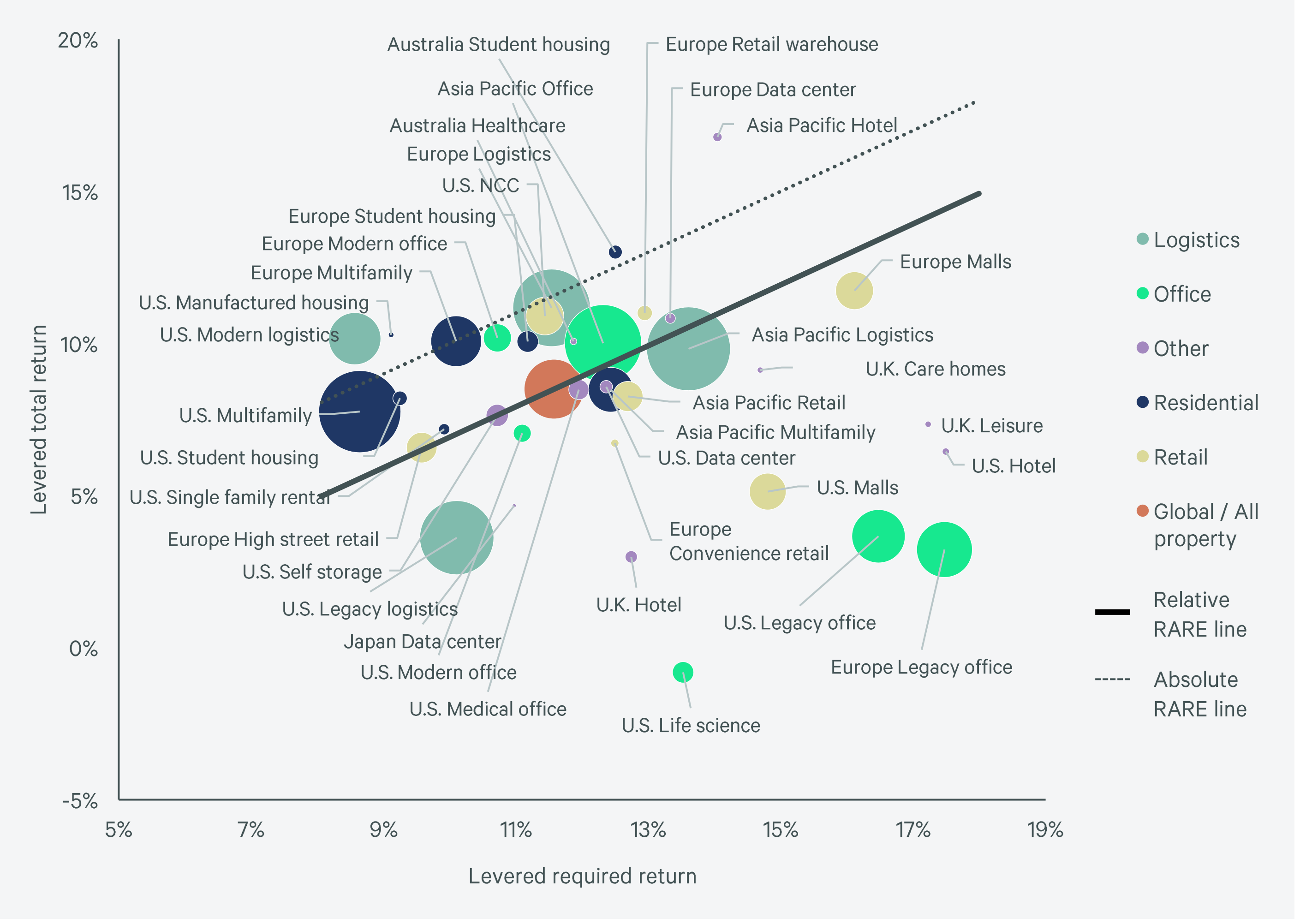


Three of the four major real estate types offer almost the same proportion of markets (equally weighted) that offer good relative value in our RARE model (**Figure 8**). Approximately 20% of residential, logistics and retail markets look attractive, with office bringing up the rear at 15%. Residential and retail also offer a wide swathe of markets that are considered fair value, whereas, for office, logistics and other sectors, half of markets looks expensive.

On a regional basis, the picture is more nuanced. European "beds and sheds" still look fairly or attractively priced. In the U.S., retail and residential look best priced. And in Asia Pacific, office and alternatives look best placed, on an equally weighted basis.

Figure 8: **Required return and total return, for all sectors, Q4 2025–Q3 2030, % p.a.**
**Levered returns and required returns (50% LTV)**

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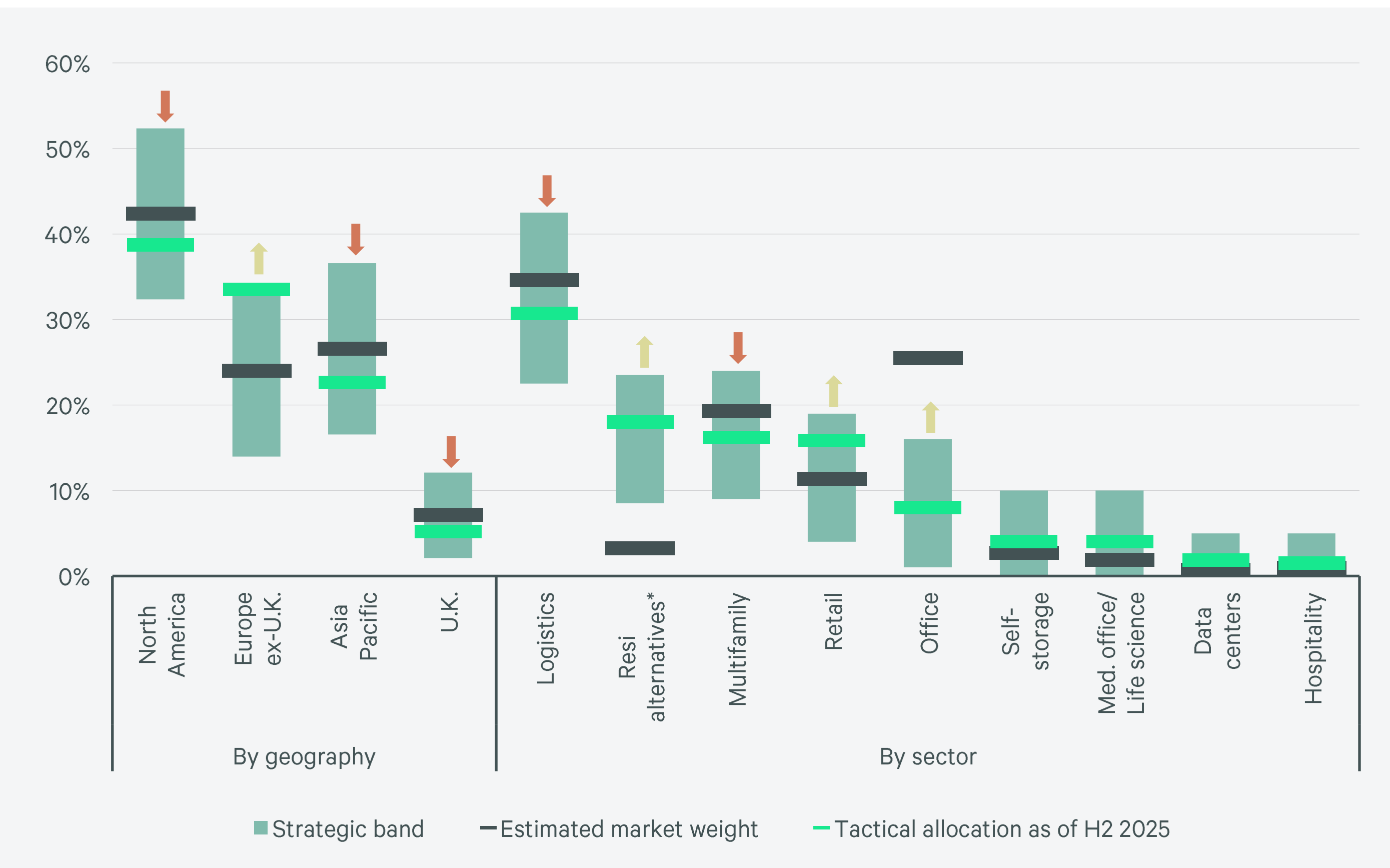
Bubble size reflects the size of the market.
Relative RARE line: Markets above the line are expected to generate better returns versus their required return than the average market.
Absolute RARE line: Markets above the line are expected to generate returns higher than their required return.
Source: CBRE Investment Management, forecasts as of H2 2025. For illustrative purposes only. Based on CBRE Investment Management's subjective views and subject to change. There can be no assurance any targets or business initiatives will occur as expected. Forecasts are inherently uncertain and subject to change.

# Model portfolio and preferred strategies

## Moving to an overweight to Europe ex-U.K. and retail

Our model portfolio summarizes our strategic and tactical allocations based on our forecasts of relative value. **Figure 9** shows that we start by being strategically agnostic by region, with symmetric bands around our estimated market weight. We make tactical allocations based on our key calls. In the current forecast, we further downgraded our U.S., Asia Pacific and U.K. allocations in the model portfolio to reflect weaker absolute total return forecasts and poorer relative value in the former two regions, and lower conviction over the bond yield and thus cap rate outlook in Japan and the U.K. We added the allocation from the downgraded regions to Europe ex-U.K. which now sits at the top of its strategic band. Given its offer of both high absolute returns and good value, we are the most positive we have ever been on Europe ex-U.K.

Figure 9: **Global model portfolio for core unlevered local currency investors, tactical positioning, % of GAV**




*Residential alternatives reflect student housing, single-family rental, senior living and manufactured housing.
Arrows reflect changes in tactical allocation versus H1 2025.
Source: CBRE Investment Management as of H2 2025. For illustrative purposes only.

For our sector allocations, we further downgraded our tactical allocation to logistics, largely driven by a weaker set of forecasts in the U.S., but even at 30%, it is still a substantial part of our model portfolio. We continue to believe that there is a substantial bifurcation occurring between the performance of legacy and modern logistics, and that while the issue of functional obsolescence is well-understood in the office sector it is underestimated in the logistics sector. As a result, we are markedly underweight to legacy logistics but still very positive on creating and owning modern logistics, as reflected in our preferred strategies (**Figure 10**).

**Figure 10: Preferred strategies**

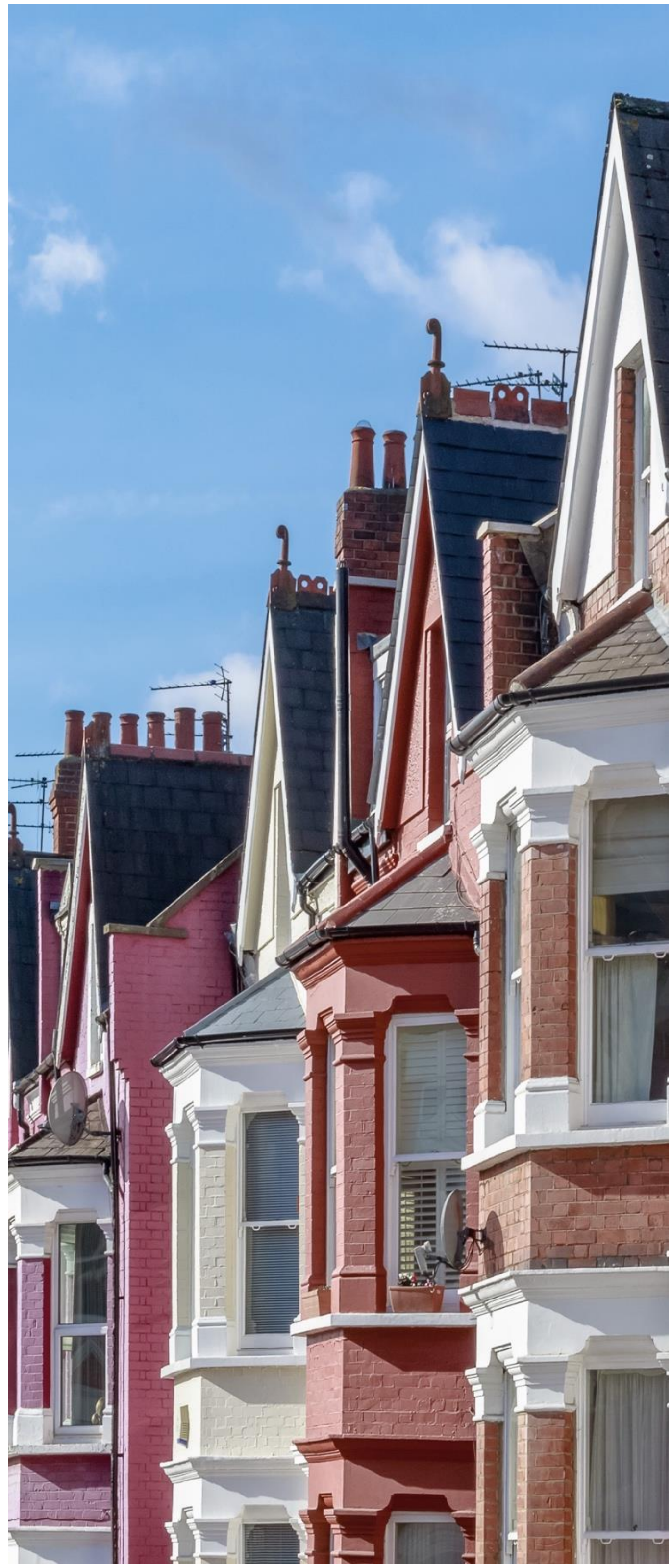
| | | Acquire core | Reposition | Develop to core |
|---|---|---|---|---|
| **RESIDENTIAL** | Attainable for-rent residential in submarkets where rents appeal to a wide range of income groups, assets are well-connected by public transport and are served by locally oriented amenities. | Europe ex-U.K. | Tokyo/Osaka residential | U.K. |
| | Same but in the regulated rent sector. | | | U.K. |
| | Renovate scattered-site SFR with deferred maintenance in strong inner-ring suburban locations. | | U.S. | |
| | PBSA assets in top-tier university towns with limited supply. Focus on appropriate amenity provision and all-in-cost rent affordability. | Australia, U.S., Europe-ex-U.K. | | Benelux, Germany |
| **LOGISTICS** | Well-specified infill/urban warehouses in major population centers and distribution facilities on key transport nodes. | Europe ex-U.K., U.K., South Korea, Australia | Japan, Australia, South Korea | Europe ex-U.K., Japan, Australia, South Korea<br>U.S.: Inland Empire, Greater NY/NJ, Phoenix, Austin |
| | Industrial outdoor storage offers higher yield than conventional industrial. | Netherlands, Germany, U.S. | | |
| **RETAIL** | For mall, generate attractive income by optimizing building use. Target NCC and retail parks given low capex and dependence on non-discretionary spending. | | Retail park sector in the U.K., - malls in CEE, Southern Europe | |
| | Acquire NCC retail assets with credit tenants and reversionary potential. | U.S. | | |
| **OFFICE** | Well-located, amenitized, modern office. | Australian office in key submarkets of Sydney CBD Core | London, Paris, Munich | |

Source: CBRE Investment Management as of H2 2025.

By contrast, we are making a substantial positive allocation to the residential alternative sector, including senior living, student housing, single-family rentals and manufactured housing. We are strategically overweight and we believe the benchmark will rise to meet us, as it did with logistics in the 2010s. Our tactical weight is six times the weight of the benchmark. Although our tactical allocation to multifamily is slightly underweight due to our weaker forecasts in the U.S. and Japan, the allocation remains substantial. Overall, our residential allocations are 34% of our model portfolio.

We have also upgraded our tactical allocations to retail and office in this edition of our House View. We see a lot of value in the retail sector, although the optimal formats vary by region and country. In an era of higher-for-longer interest rates, retail offers resilient income-driven returns. We have also increased our tactical allocation to the office sector, given the positive leasing performance and early signs of cap rate compression in key modern office markets in Europe and Asia Pacific in particular. We, however, remain strategically underweight to office overall as, outside of Tokyo B-grade office, we still foresee ongoing distress and repricing in legacy offices. We have expanded the strategic bandwidth of our retail and office weightings to reflect the fact that we want more room to maneuver as these sectors move through repricing.

Our preferred strategies are outlined in **Figure 10.** Although we continue to be broadly positive on logistics and residential globally, as well as selective retail, office and alternative sectors, this table shows the considerable nuance in format and execution strategy within sectors. Current investment decisions require a granular nuanced approach in the current market, taking into account local variations in tenant demand and space use. Choosing the right geographies and sectors will continue to drive performance. However, in an era of performance bifurcation by quality and business plan, as well as the operational nature of real estate, stock selection and execution discipline—our third key call—will grow in importance in driving performance.



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